IPSASB: Current guidelines in IPSASs for recording PPPs

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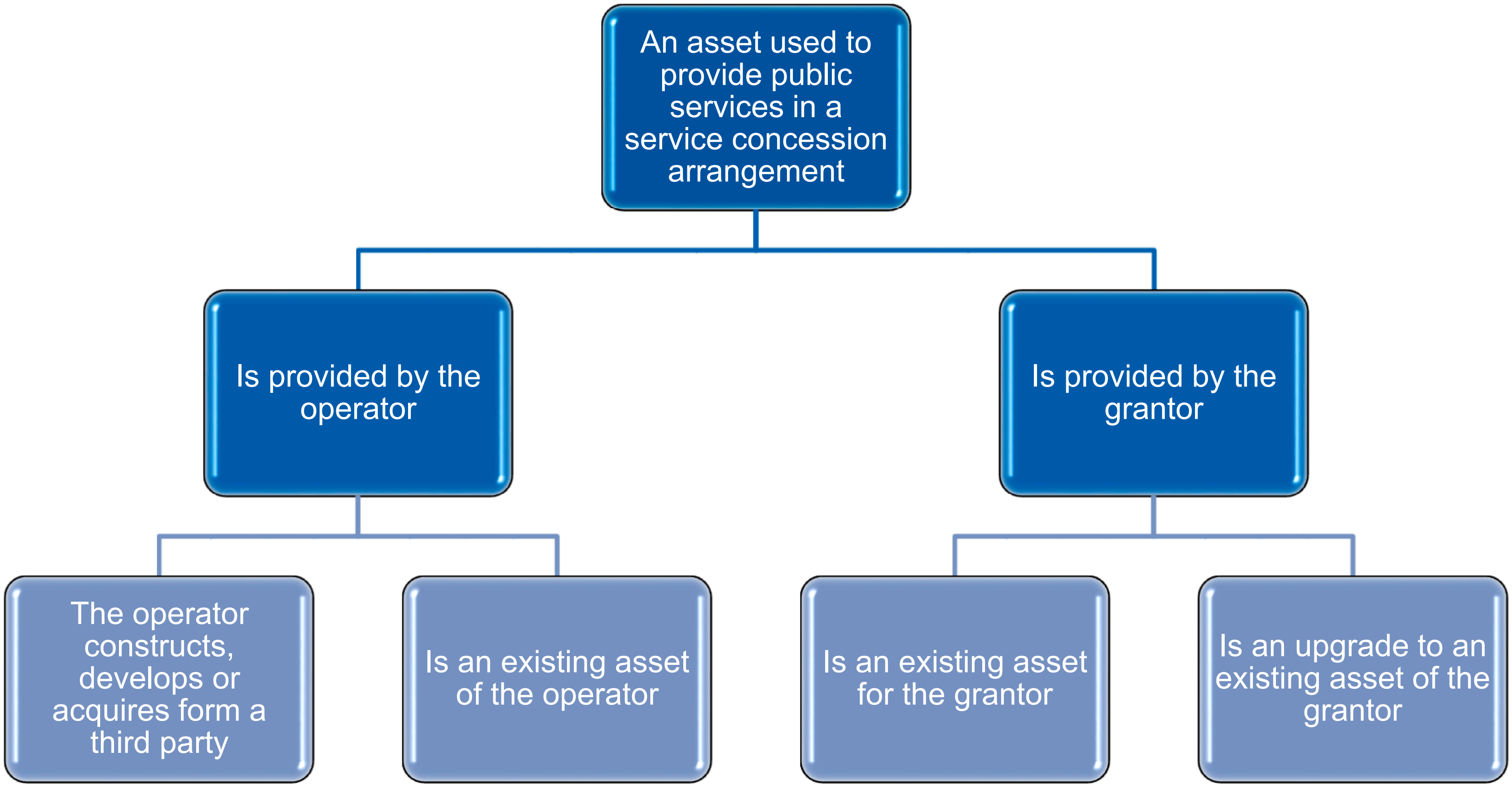
What is a *Service Concession Arrangement* (also known as a *Public-Private Partnership* or PPP)?

A binding arrangement between a grantor and an operator in which

- The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and
- The operator is compensated for its services over the period of the service concession arrangement

Service Concession Asset



History – “Risks and Rewards” approach

- A party will have an asset of the property where it has:
  - Access to the benefits **[rewards]** of the property; and
  - Exposure to the **risks** inherent in those benefits
- Where that party is the purchaser, it will have a corresponding liability to pay the operator for the property (where this is required by the contract)

- *Based on UK FRS 5, Application Note F*

Current – "Control" approach

This Interpretation applies to public-to-private service concession arrangements if:

(a) the grantor **controls** or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

(b) the grantor **controls**—through ownership, beneficial entitlement or otherwise—any significant residual interest in the infrastructure at the end of the term of the arrangement.

IFRIC 12, Service Concession Arrangements

Accounting (IFRIC 12)

Operator

- Do not recognize infrastructure (physical assets)
  - Recognize asset for contract costs
- Recognize revenue
  - Financial asset
  - Intangible asset (right to charge users)

Grantor

- Not addressed in IFRIC 12

Grantor Accounting – Mirroring IFRIC 12

Operator	Grantor
Do not recognize physical assets	Recognize physical assets
Recognize financial asset	Recognize financial liability
Recognize intangible asset	?

IPSAS 32–*Service Concession Arrangements: Grantor*

The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:

(a) The grantor **controls** or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and

(b) The grantor **controls**—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.

Grantor Accounting – IPSAS 32

Operator	Grantor
Do not recognize physical assets	Recognize physical assets
Recognize financial asset	Recognize financial liability
Recognize intangible asset	Recognize unearned revenue

Accounting by the Grantor

- Financial liability
  - Fair value of asset
  - Stream of Payments
    - Reduce liability
    - Finance charge (interest)
    - Charge for services provided
- Unearned portion of revenue
  - Fair value of revenue
    - Fair value of asset

Need for information

IPSAS 32 – Financial Statements under Financial Liability Model

Statement of Financial Position (Balance Sheet)	
Asset	✓
Financial Liability	✓
Unearned Revenue	

Statement of Financial Performance (Income Statement)	
Depreciation	✓
Interest	✓
Cost of Services	✓
Revenue earned	

IPSAS 32 – Financial Statements under Grant of Right to the Operator (Unearned Revenue) Model

Statement of Financial Position (Balance Sheet)	
Asset	✓
Financial Liability	
Unearned Revenue	✓

Statement of Financial Performance (Income Statement)	
Depreciation	✓
Interest	
Cost of Services	
Revenue earned	✓

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PPPs: Comparison with GFS (1)

- “The macroeconomic statistics approach is broadly consistent with considerations listed by the International Public Sector Accounting Standards Board (IPSASB) for the recognition and measurement of a service concession asset.”

- However…

PPPs: Comparison with GFS (2)

IPSAS 32	GFSM 2014
Recognition based on control	Recognition based on risk and rewards
Specified accounting where grantor does not make payments (unearned revenue)	Imputed transaction where grantor does not make payments (examples given include imputed financial leases and imputed loans)
No specific guidance if grantor does not control the asset (apply other IPSASs instead of IPSAS 32)	Provides guidance where operator has economic ownership (two options: recognize revenue and accumulate receivable over life of arrangement; or recognize revenue on final transfer)
Grantor regulates price as part of control of asset	Grantor usually (but not always) regulates price

Questions, discussion & further information

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